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STATE OF CALIFORNIA

GRAY DAVIS, *Governor*

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FCC MAIL ROOM

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20024

Re: **Ex Parte Comments: In the Matter of 2000 Biennnial Regulatory Review – Comprehensive Review of the Accounting Requirement and ARMIS Repor5ing Requirements for Incumbent Local Exchange Carriers: Phases 2 and Phase 3, CC Docket No. 00-199**

Dear Ms. Salas:

In accordance with Section 1.1206(b)(1) of the FCC's Rules, the California Public Utilities Commission (California) hereby submits for filing two copies of this presentation for inclusion in the public record in the above-referenced docket.

The People of the State of California and the Public Utilities Commission of the State of California ("California" or "CPUC") hereby submit this presentation before the Federal Communications Commission's ("FCC") Notice of Proposed Rulemaking ("NPRM") regarding Phase Two of the FCC's comprehensive review of accounting and Automated Reporting Management Information System (ARMIS) reporting requirements for incumbent local exchange carriers ("ILECs").

The FCC's NPRM seeks comments on elimination of 77 of 296 Class A accounts from Part 32 of the Uniform System of Accounts ("USOA"). Specifically, the FCC has asked for comments on the United States Telephone Association's ("USTA") proposal for Class A companies to maintain accounts as Class B companies, thereby eliminating the remainder of Class A accounts; to eliminate continuing property record requirements; to eliminate forecasts used for joint cost allocation purposes; and to eliminate the majority of ARMIS reports for mid-sized ILECs. Additionally, the FCC seeks comments on the states' proposal to add the accounts listed in Appendix 5 of the NPRM to meet changing regulatory needs.

I. CHART OF ACCOUNTS

The CPUC supports the continued availability of detailed accounting information and opposes sweeping elimination of such detail. Further, the CPUC does support the effort to streamline accounting and reporting requirements where appropriate. The CPUC continues to monitor ILECs' and relies on the detailed financial information provided through the current USOA accounts. The CPUC believes that it is premature to streamline aggressively the accounting and reporting requirements for Class A ILECS, before effective competition has been demonstrated in the local exchange market.

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The CPUC does not support USTA's proposal to uniformly adopt Class B accounting for all carriers. Applying Class B accounting requirements to the Class A ILECs would eliminate critical detail that is used in evaluating Unbundled Network Element ("UNE") pricing proposals, wholesale discounts for ILEC services subject to resale, and universal service support. Also, the loss of detail would constrain the ability of state regulatory commissions that rely on Class A Part 32 detail to analyze Class A carriers' operations. For these reasons the CPUC opposes the elimination of any administrative, customer, operations or plant account detail. Plant accounts, in particular, are an indication of the nature of a company's investments. Lacking the detail behind these accounts would obscure an understanding of a company's construction programs and would therefore undermine the ability of the states to assess the proper depreciation factors that should be applied in setting an ILEC's rates.

The CPUC does, however, believe that it is appropriate to modify the USOA to eliminate obsolete data as technology evolves and to track up-to-date information. Toward that end, the CPUC supports the inclusion of the additional accounts suggested by the states in the NPRM.

The CPUC does not agree with the USTA's argument that maintaining the existing chart of accounts required under the FCC's Class A accounting system is burdensome for the large ILECs. The accounting systems for these companies have several thousand functional accounts and subaccounts. To comply with the FCC charts of accounts is merely a matter of aggregating functional accounting data into the Class A USOA reporting format.

The CPUC believes that the loss of such accounting detail would have substantial adverse consequences on the ability of the states to understand the nature of a carrier's costs. The loss of the current level of detail would therefore have a permanent adverse effect on the ability of the regulators not only to regulate current programs, but also to intelligently oversee those new programs contemplated in the future as the industry evolves.

However, should the FCC move forward in adopting its proposal of eliminating the USAO accounts in Appendix 3, the CPUC recommends that for a period of three years the FCC require ILECs to map the eliminated accounts to allow for the reconstruction of the recorded data back to the same level of account detail prior to elimination. The mapping process will facilitate the state commissions' efforts when necessary to analyze the eliminated accounts.

II. AFFILIATE TRANSACTIONS

The CPUC opposes the USTA's proposal to revise FCC §32.27(d) to reduce the prevailing price threshold from 50% to 25% for evaluating and pricing affiliate transactions. Clearly, since 75% of most of a non-regulated affiliate's sales continue to be predominantly to the ILEC, the affiliate's main purpose is to continue to serve the ILEC and not non-affiliated third parties. Lowering the threshold will encourage the affiliate to maximize profits by capturing volume discounts and cost savings with no incentive to pass these on to the ILEC. Therefore, the CPUC continues to support the FCC's threshold of 50% as the prevailing price in valuing affiliate transactions.

III. CONTINUING PROPERTY RECORDS (CPR)

The CPUC's concern in the continuing property records (CPR) area is that the reduction in accounting detail will have an adverse affect on competition and universal service. As a result, the CPUC believes it to be imperative to retain the CPR requirements. The CPR is the basis for entries in a regulated company's books of account and supports plant accounting adjustments, transfers, and allocations. Thus, the CPR provides data for auditing and analyzing the carrier's accounting records as a whole. If the CPR does not accurately support the plant accounts, then the accuracy of virtually all other accounts become suspect. In this regard, it has been noted that the FCC recently released audit reports highlighting significant discrepancies between the CPR of the BOCs and their books of accounts.

Historical plant data may also be used in such forward-looking applications as evaluating carriers' requests for universal service fund support. Such information is of benefit to those states with their own universal service support programs. However, the use of studies that are based on erroneous historical cost data will necessarily lead to the development of inaccurate requests and will constrain the ability of regulators to evaluate these requests.

IV. COST ALLOCATIONS

The CPUC also opposes the elimination of the forecast use rule in the allocation of joint investments between regulated operations and nonregulated operations. In discussing this provision in the Part 64 docket, the FCC made it clear that their concern was that such investments be allocated on the basis of intended relative use (not actual relative use) over the life of the investment. This was to prevent regulated operations from bearing the cost of non-regulated operations. This concern has not changed. The CPUC believes that the elimination of this provision would result in the over-allocation of non-regulated costs to a carrier's regulated operations.

With the ability to shift costs of new and existing non-regulated services to the regulated activities, competition for these non-regulated services would be seriously undermined. ILECs that would have the ability to shift such costs would be able to subsidize their provision of non-regulated services, to the detriment of new market entrants. Thus, the proposed elimination of the forecast use rule could create an unfair and uneven playing field as among the various providers of new services in the future.

V. ARMIS REPORTING

The CPUC believes that both the proposal to eliminate nearly all ARMIS reporting requirements for Class A carriers as well as state-by-state reporting is inappropriate. The CPUC is not convinced that the current reporting requirements impose a substantial burden on these carriers. The CPUC uses this data in its monitoring of ILEC operations with regard to competitive issues and universal service matters. Additionally, as noted in the previous discussion related to CHARTS OF ACCOUNTS, carriers' existing accounting systems contain more account data than those covered by the Part 32 USOA. Thus, CPUC does not believe aggregating this data for regulatory reporting is not unduly burdensome. The continued availability of this uniform and standard data is important to state regulatory agencies as well as interested members of the public.

Very truly yours,

Gretchen T. Dumas

Gretchen T. Dumas
Public Utilities Counsel IV

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